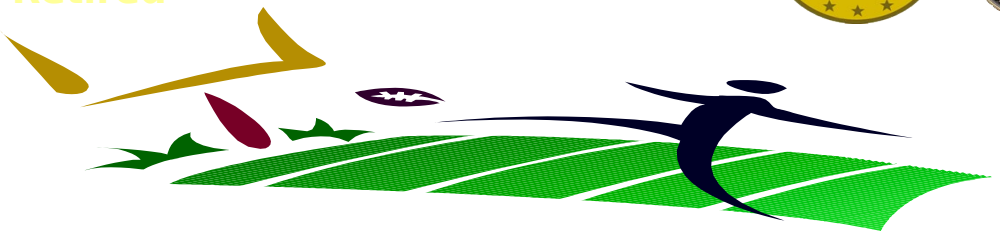
Department of the Army Survivor Benefit Plan (SBP) Soldier and Spouse Brief

Updated May 2011

Army G-1 Retirement Services Office

Our Goal



CHANGE….

MISINFORMATION you may have heard about SBP from *MISINFORMED* People

***INTO…..* INFORMATION**

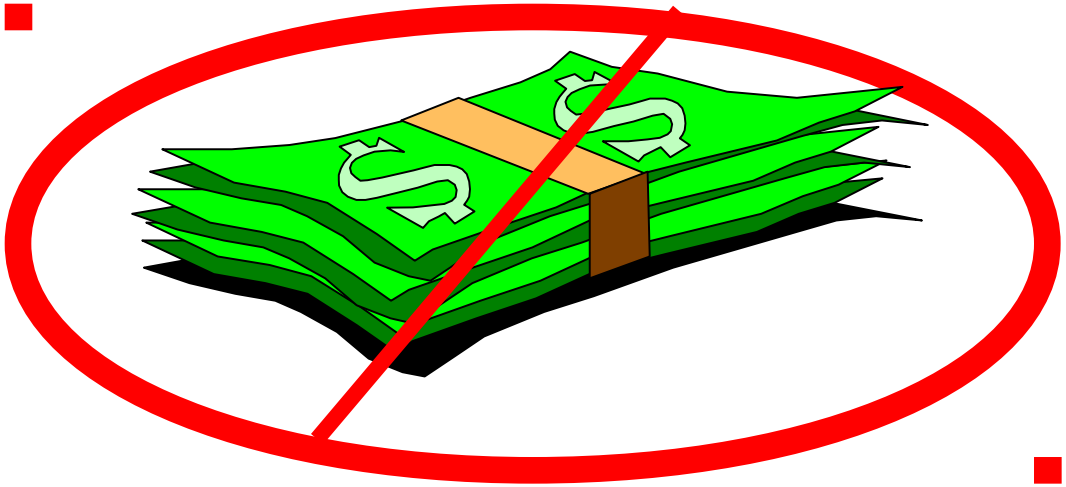
From *INFORMED Experts*

Purpose

This briefing will break SBP down into manageable understandable blocks, to help you to make an informed decision on your individual SBP electi

THE BOTTOM LINE

RETIRED PAY STOPS



WITH THE DEATH OF THE RETIREE!

Are You Risk Averse?

Weigh:	***Against:***
Higher risk of leaving your survivor may	Smaller risk that your loved ones with
insufficient income	not get back every cent paid in premiums

What is the risk of your spouse outliving you?

- Life Expectancy (Note 1)
  - Male **75.1** years
  - Female **80.2** years
- SBP Annuitants Who Exceed Life Expectancy: **45% or 117,755** (Note 2)

Note 1: US Census Bureau , The 2010 Statistical Abstract
Note 2: Source: DOD Actuary Statistical Report on Military Retirement System

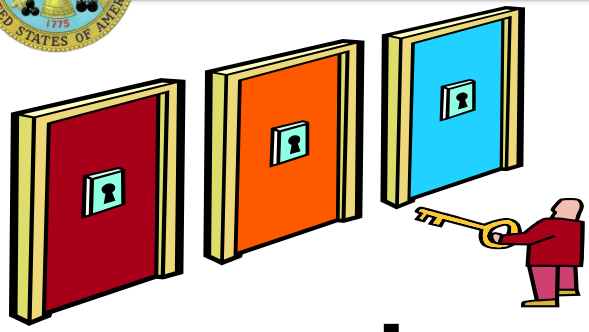
WHAT IS SBP?

- **Enacted by Congress in 1972**
- **Sole means for retiree to continue a portion of retired pay to survivors**
- **Coverage is free while on active duty**
- **Decision at retirement -- begin to share cost**
- **Over eight out of ten retiring Soldiers elect SBP to protect their family's financial future**

The Annuity

Amount:

- **Annuity of 55% of selected base amount regardless of the annuitants age**

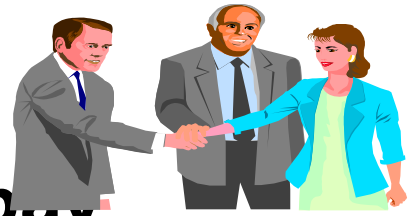


ABOUT ELECTIONS

- **Must be made *before* retirement**
- **Certain elections need spouse concurrence**
- **Generally irrevocable**
  -- may be cancelled with spouse concurrence between months 25-36 following retirement
- **For non-regular Reserve retirement (Age-60), only Reservists who elected RCSBP election Option A, Decline RCSBP**

A *"JOINT"* Decision For Married Soldiers

Who . . .



- decline coverage
- cover less than full retired pay
- elect "child only"
- are under REDUX retirement plan and <u>do not elect</u> full base amount based on retired pay they would have received under High-3

It is the Soldier's election

- The spouse can only concur or non concur

Termination Feature

- **termination during one-time, one-year window between 25th and 36th mo. after start of pay**
- **spouse concurrence required**
- **barred from future enrollment**
- **no refund of past premiums**
- **why the law change?**

--acknowledges need for flexibility

Medical Retirement SBP Considerations

- Soldiers being medically retired need to consider the following in their SBP decision
  - Withdrawal from SBP based on a VA Total Disability Rating
  - SBP and Dependency and Indemnity Compensation (DIC)
  - Special Survivor Indemnity Allowance (SSIA)

Withdrawal from SBP Based on VA Total Disability Rating

- You may withdraw from SBP if:
  - You have a service-connected disability that has been rated by the VA as totally disabling for
    - not less than five continuous years from the date of retirement --or--
    - if awarded after retirement for ten or more continuous years.
- Withdrawal is allowed because surviving spouse will qualify for DIC benefits because death will be presumed to be from service-connected reasons
- When retiree dies, the surviving spouse will be entitled to a refund of all the SBP costs that were paid

SBP and Dependency and Indemnity Compensation (DIC)

- SBP and DIC
  - DIC is only payable if retiree's death is determined by the VA to be service connected
  - SBP provides annuity if death is not determined to be service connected
  - SBP premiums are refunded to the spouse for any portion of SBP that is offset by DIC
  - SBP is offset dollar for dollar by DIC currently
    - $1154 for spouse
    - $286 for each child

Special Survivor Indemnity Allowance (SSIA)

- SSIA is paid to spouses whose SBP annuity is fully or partially offset by DIC.
- SSIA will be paid to the surviving spouse if
  - entitled to DIC, receiving an SBP annuity either partially or completely offset by DIC; and SBP offset is at least equal to the SSIA
  - Payments will be paid in the following monthly amounts:
    - For months during fiscal year 2011, $70; 2012, $80; 2013, $90; 2014, $150; 2015, $200; 2016, $275; 2017, $310
    - Ends 1 Oct 2017 unless extended by Congr

Six Election Categories

- **Spouse Only**
- **Spouse & Child**
- **Child Only**
- **Former Spouse Only**
- **FS & Child**
- **Insurable Interest**

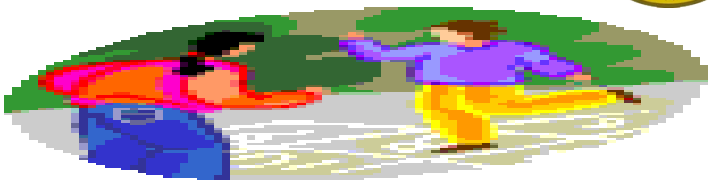
Spouse Election

- **provides annuity of 55% regardless of the surviving spouse's age**
- **annuity paid forever (unless remarriage occurs pre-55)**
- **if remarriage ends, annuity reinstated**
- **increased by annual COLA**
- **taxable as an annuity**
- **cost stops when no beneficiary**

Spouse & Child Election

- **spouse = primary beneficiary**
- **children are secondary beneficiary and receive the annuity *only if* spouse can't (pre-55 remarriage or death) *and* they are still eligible**
- **child cost is based on ages of member, spouse & youngest child**
- **cost of child coverage - very low**
- **child cost stops when no eligible**

Child Only Election



- **eligible until 18, or 22 if full-time, unmarried student**
- **unmarried incapacitated child - eligible forever**
- **(if condition was incurred pre-18 or 22)**
  - **Note: It is recommended that you research the impact SBP for a fully disabled child may have on other benefits the child has or will receive.**
- **cost based on ages of member & youngest child**
- **all eligible children covered at one cost**
- **cost stops when no eligible children remain**
- **cheaper than "spouse" due to finite benefit**
- **costlier option than child when <u>with</u> spouse since child is primary beneficiary**
- **annuity divided equally among all eligible children**

Advice--Seriously Consider Child Coverage!

- **Q: Why bother to cover my 21-year old son who graduates from college soon?**
- **A: Because….**
  - **incapacitation may occur while still eligible**
  - **“closing” the child category when there are eligible children closes it forever**
  - **family complete? perhaps a step-, grand-, foster- or natural child is in your future**

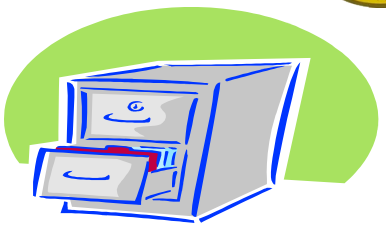
"Insurable Interest" Election

- **Who Can Elect: unmarried Soldiers with no or one dependent child**
- **Eligible Beneficiaries: relative more closely related than cousin; or business associate w/financial interest in Soldier (proof needed)**
- **Base Amount: Must be full retired pay**
- **Cost: 10% + 5% for each full 5 yrs younger beneficiary is than Soldier (maximum 40%)**
- **Benefit: 55% of retired pay *less* SBP cost**
- **Loss of Beneficiary: May elect new beneficiary within 180 days of current beneficiary's death.**
- **In order for an Insurable Interest election for a medically retired Soldier to be valid, they must live one year from retirement or if they die within one year, death must not be attributable to a medical condition for which they were medically retired**

Former Spouse (FS) "Particulars"

- **FS coverage can be**:
  - **- purely voluntary**
  - **- incorporated into a written agreement**
  - **- court-ordered**
- **If divorce prior to retirement:**
  - **If court ordered, Soldier should elect former spouse at retirement or could be held in <u>contempt of court</u>**
  - **FS can provide DFAS-CL divorce decree <u>plus</u> written request for a deemed election within one year of the court order**
- **FS coverage can be changed if court order**

No Beneficiary at Retirement?



- **Keep SBP literature**
- **Keep “Echoes” -- RSOs’ ph. nos. listed**
- **Contact nearest RSO for a new briefing as soon as eligible beneficiary is gained**
- **Decision whether or not to enroll new family members MUST be made within one year of gaining them**
- **New spouse becomes eligible at 1-year anniversary. (SBP costs do not begin until then)**

Base Amount

- amount of retired pay (in dollars) participation is based on
- minimum, by law = $300
- maximum, by law = full retired pay
- may choose any $$ amount between
- Soldiers retiring under CSB/REDUX may choose full base amount based on retired pay they would have received under High-3.

SBP Cost Formula
(Spouse Only)

Formula:

- **6.5% of base amount selec**
- **cost lowered in Mar '90**

Examples:

Base Amount:	**$2000**	**$3000**	**$4000**
Cost (6.5%)	**$ 130**	**$ 195**	**$ 260**
Annuity provided:	**$1100**	**$1650**	

Sample SBP Costs

(Ages: Member=44; Spouse=41; Youngest Child=12)

Monthly Cost

Base Amount	Spouse Only	Spouse & Child	Child Only Amount
$4000	$260	$260.52	$ 8.00
$2200			
$3000	$195	$195.39	$ 6.00

SBP's *Real* Cost

	NO SBP*	SBP
Retired Pay	$2,000	$2,000
SBP Cost	$ 0	$ 130
Taxable Pay	$2,000	$1,870
Tax Paid (28%)	$ 560	$ 524
Tax Savings	$ 0	$ 36
Actual SBP Cost	**$ 0**	**$ 94**

*** The SBP participant receives a $36/month tax savings – and a future survivor benefit of $1,100. Tax rates will vary base on each individual's financial situation.**

"Threshold" Amount

- **Portion of base amount which costs 2.5%**
- **Only applies to Soldiers whose Date Initially Entered Military Service (DIEMS) date was prior to 1 Mar 90, medical retirements, or reserve non-regular age 60 retirement.**
- **Indexed annually to AD pay raise(s)**
- **Instead of a $300 base, cover base amount at 2.5%**
- **Effective 1 Jan 11**

	Base	Cost
Annuity		
Threshold	**$735**	**$18.37**
$404		

Can I Tailor SBP To Meet *My* Needs? Yes….Think "Base Amount"

Challenge: What base amount should I cover to meet our needs?

Solution: Divide the goal amount by 55%

Examples:

$2000 annuity -- choose $3636 as base

$1000 annuity -- choose $1818 as

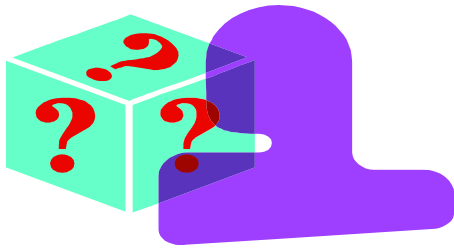
"30-Year Paid-Up Provision"

- **effective 1 Oct 2008**
- **no further cost (but annuity payable)**
- **AFTER…**
  - **30 years of paying SBP Premiums (360 payments)**
- **AND**
  - **reaching age 70**

SBP POSITIVES

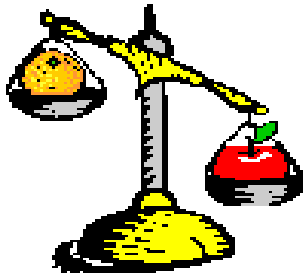
- Government-subsidized plan
- Tax-free premiums
- Inflation-adjusted annuity
- Level-term plan annuity of 55 percent
- **Flexible: can terminate between ret years 2-3**
- **“Paid-up” after 30 years paying premiums + age 70**
- **Survivors cannot outlive annuity**
- **Age, health, smoking, sex, lifestyle -- not considered**
- **Cost in today’s dollars; benefit in tomorrow’s dollars**
- **Can only be changed by Congress**
- **Income safety net; peace of mind**
- **Every active duty Soldier enrolled at no cost from Day One**

SBP's *"Perceived"* NEGATIVES



- Annuity is taxed to survivor
- Premiums not returned if spouse dies first
- Retired pay reduced because of SBP costs
- Cost increases with COLA
- No inheritance provision
- No cash value; can't borrow against it

Four Main Points When Comparing SBP to Life Insurance



- It takes a **surprising** amount of insurance to do for the spouse what SBP will (based on averages).
- It will take **a lot more** insurance if the spouse outlives the retiree by the longest period of time.
- The amount of insurance needed over time **rises due to inflation**.
- Even though insurance may appear to be an inexpensive "alternative" *at retirement*, it's **harder to obtain and increasingly expensive** as you age.

Replacement Value of Annuity

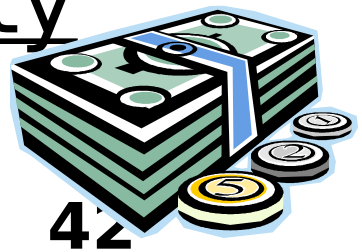
Ret Pay: $5000

Member's Age: 43 **Spouse's Age: 42**

Spouse's Age At Soldier's Death	Annual After-Tax SBP Annuity	Replacement Value of SBP*
42	$29,700	$830,444
53	$38,752	$944,099
63	$52,079	$998,434
73	$69,990	$939,095
83	$94,061	$738,339

*Face value of insurance needed to equal SBP benefit.

Replacement Value of Annuity



Ret. Pay: $3000
Member's Age: 43 Spouse's Age: 42

Spouse's Age at Death of SBP*	Annual After-Tax SBP Benefit	Replacement Value
43	$17,820	$433,516
54	$23,344	$487,644
64	$31,372	$506,232
74	$42,162	$473,925

*Face value of insurance needed to equal SBP benefit.
Note: This program can be accessed on the DOD Actuary homepage, www.dod.mil/actuary/,

Life Insurance Proceeds-- How Long Do They Last?

(Ret Pay = $5000; Life Insurance = $5(

Death	*Spouse*	*Insurance*	*After-Tax*
Year	***Age***	***Proceeds***	***SBP Benefit***
2011	**43**	**$500,000**	**$29,700**
2016	**48**	**$464,972**	**$34,430**
2021	**53**	**$391,462**	**$39,914**
2026	**58**	**$ 263,899**	**$46,272**
2032	**64**	**$ 659**	**$55,251**
2032	**65**	**$ 0**	**$56,908**

- **Assumes an inflation amount of 3%, return on invested insurance of 5.75%, and spouse lives to 86 .**
- **Insurance runs out in 2032, years without insurance proceeds 22**

Note: To access this program go to DOD Actuary homepage, www.dod.mil/actuary/, click on "SBP Programs."

Life Insurance Proceeds-- How Long Do They Last?

(Ret Pay = $3000; Life Insurance = $25(

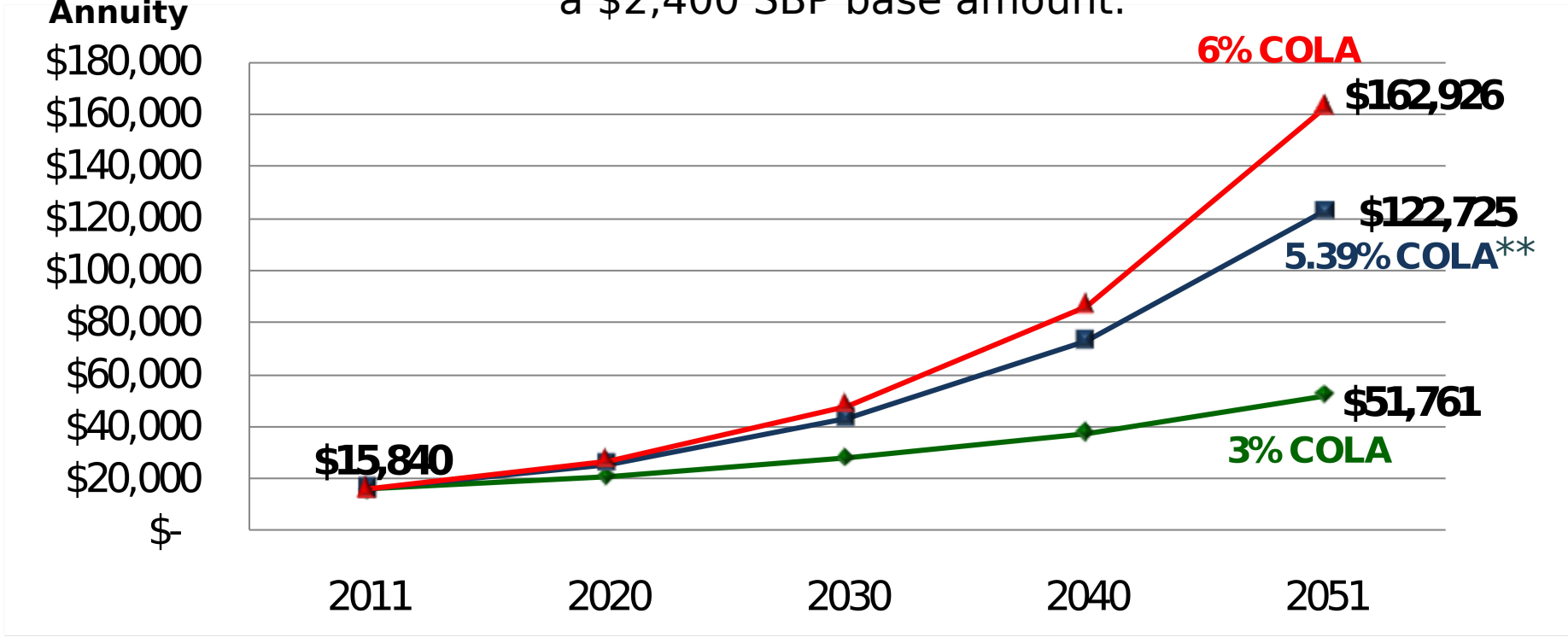
Death Year	***Spouse Age***	***Insurance Proceeds***	***After-Tax SBP Benefit***
2006	**42**	**$250,000**	**$17,891**
2008	**44**	**$240,632**	**$18,991**
2016	**52**	**$163,277**	**$24,044**
2021	***57***	***$ 68,622***	***$27,847***
2023	**60**	**$ 0**	**$30,459**

- Spouse's expected age at death **82**
- Years without insurance proceeds **25**

Note: To access this program go to DOD Actuary homepage, www.dod.mil/actuary/, click on "SBP Programs," and select the program, "Insurance".

SBP Cost of Living Adjustments (COL

The effects of COLA on SBP over 40 years for a SFC with a $2,400 SBP base amount.



You pay in today's dollars for an SBP annuity paid in future dollars.*

- **3% COLA** represents current average inflation
- **5.39% COLA**** represents inflation average over previous 40 years
- **6% COLA** represents moderate inflation

*All calculations made using DOD Office of the Actuary tables
** SOURCE: US Dept. of Labor, Bureau of Labor Statistics

Years Required for Annuity to Exceed Premiums Paid for Spouse SBP

Length of time Premiums Paid	Years for Annuity to Exceed Premiums Paid
5 Years	8 Months
10 Years	1 Year, 1 Months
15 Years	1 Year, 6 Months
20 Years	1 Year, 10 Months
25 Years	2 Years, 2 Months
*30 Years	2 Years, 5 Months

***No further cost after 360 (30 years) premium payments and age 70)**

(Based on data provided by the DOD Actuary Office)

Life's Certainties?

Civilians:

1--death

2--taxes

Retirees:

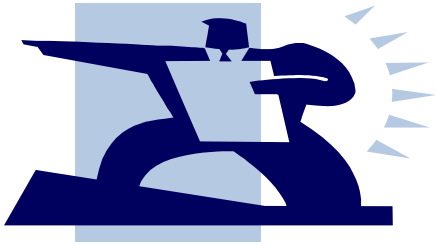
3--Can't outlive retired pay

Annuitants:

4--Can't outlive SBP annuity

You Be the Judge

Who Was Responsible?



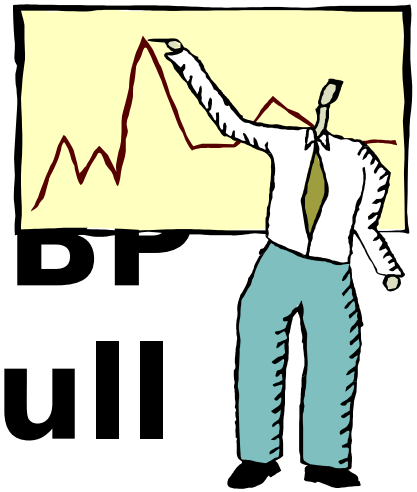
"I think I should be able to receive my husband's Army pension to assist me in my everyday living expenses. He served this country for 20 years…in the Korean War & WWII. He was the recipient of the Purple Heart. ….If he were alive today he would still be receiving his pension…."

Actual Widows' Views on SBP

"….each day I thank my late husband for his taking SBP….it allows me to live with decency and independent of others…."

"….I want to thank the Army for sending me an annuity to live on. From the bottom of my heart I am so thankful. With no life insurance on my late husband, without the annuity, I could not live in the wonderful retirement

HQDA's Advice To All Retiring Soldiers



"Do not forfeit SBP without having full knowledge of what you are giving up."

(Chief, Army Retirement Services Office)

For More SBP Information….

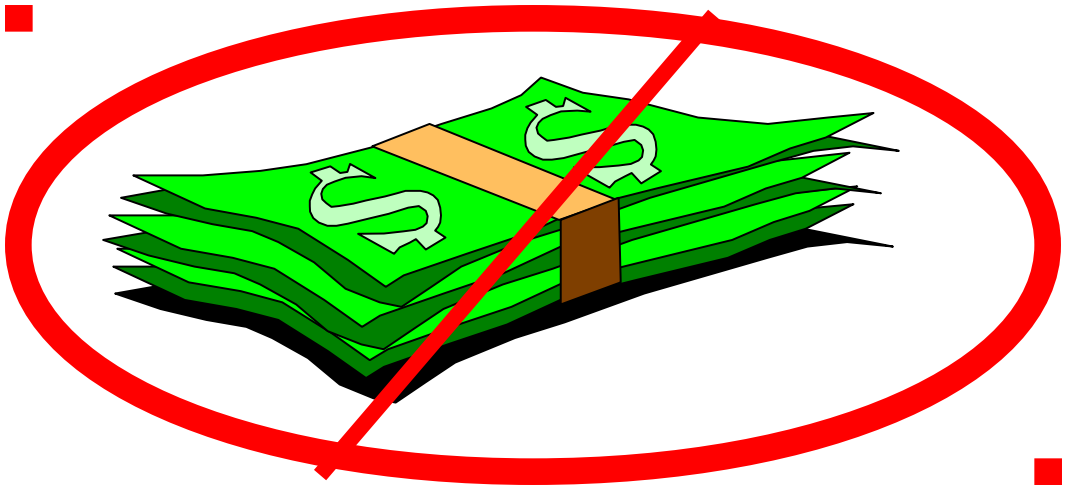
Log on to:

http://www.armyg1.army.mil/retire

Contact:

your nearest Retirement Services Officer (RSO)

REMEMBER
RETIRED PAY STOPS



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